MARTIN-McNEELY MINES, LIMITED

Annual Report

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For the Year Ended December 31, 1977

Martin-McNeely Mines, Limited

DIRECTORS

H. Dahl-Jensen	Unionville, Ontario
J. E. J. Fahlgren	Cochenour, Ontario
R. E. Fasken	Mississauga, Ontario
K. G. R. Gwynne-Timothy, Q.C.	Toronto, Ontario
G. B. Henning	Toronto, Ontario
G. T. Smith	Toronto, Ontario
R. M. Smith	Oakville, Ontario

OFFICERS

George T. Smith	President
Robert M. Smith	Executive Vice-President
Robert E. Fasken	Vice-President
David Doig	Secretary
Robert D. Sherman	Treasurer

Auditors

Allen, Miles, Fox & Johnston, Toronto

Head Office

P.O. Box 45
Royal Bank Plaza
Suite 3001, South Tower
Toronto, Ontario, Canada
M5J 2J1

ANNUAL AND GENERAL MEETING

The Annual and General Meeting of Shareholders will be held at 11:00 a.m., on Monday, April 17, 1978 in Tudor Rooms 7 and 8, Royal York Hotel, Toronto, Ontario.

MARTIN-McNEELY MINES, LIMITED

TO THE SHAREHOLDERS:

Your Directors submit herewith the Annual Report of Martin-McNeely Mines, Limited for the year ended December 31, 1977 together with the audited Financial Statements for the year then ended.

FINANCIAL

The enclosed Financial Statements show net income of $127,918, including $103,245 representing a gain on the sale of investments, for the year ended December 31, 1977. In 1976 there was a net loss of $529,403, after an extraordinary write off of $534,616.

Gross revenue after royalties from natural gas operations increased to $106,755 from $53,169 in 1976.

Working capital was $135,624 at December 31, 1977, down from $219,485 at the end of the previous year.

PETROLEUM AND NATURAL GAS

West Viking Gas Project, Alberta

As reported in the last Annual Report, the Company purchased an additional 1.94% interest in the West Viking gas unit, bringing its total working interest in the unit to 7.54%. The resulting increased share of production together with higher contract deliveries and increased prices, caused production revenue to be double that of the previous year.

During 1977 4 wells were drilled and 3 were capped as potential producers. It is anticipated that 5 wells will be drilled in this area in 1978.

Your Company's share of proven reserves in this project was 1.89 billion cubic feet at December 31, 1977.

Renaissance Resources Limited — Exploration Joint Venture in Alberta and British Columbia

The Company has taken a 7.3% interest in an oil and gas exploration programme in Alberta and British Columbia operated by Renaissance Resources Limited, a private company based in Calgary. The Company's share of expenses will be $200,000 over a period of approximately 1 year. The programme will involve drilling in the Flat Lake, Byemoor, Majorville, Calling Lake, and other areas of Alberta. Some drilling will also take place in British Columbia. It is expected that about 20 wells will be drilled during the programme. To-date 3 wells have been drilled and one has been capped as a potential producer.

PROPOSED RE-ORGANIZATION AND RIGHTS OFFER

At the forthcoming Annual and General Meeting, shareholders will be asked to approve the consolidation of the Company's existing issued share capital on a 1 for 7 basis. This will reduce the number of issued shares from 7,189,007 to 1,027,001. Shareholders will also be asked to approve the change of the Company's name to Neomar Resources Limited.

If approval of the consolidation is forthcoming, shareholders of record, on a date to be fixed by the Directors, will be offered the right to purchase at $1.10 per share 1 additional share of the Company for every 2 shares of the Company held at the record date. If all of the offered shares are sold, the Company will realize $564,850 from the offering.

The offering will not be registered under the Securities Act of 1933 of the United States and accordingly will not be made to residents of the United States. The Company understands, however, that shareholders who are United States residents will be free to sell their rights.

The proceeds from the sale of treasury shares pursuant to the rights offering will be used to pay off bank loans, finance the Company's contribution to the Renaissance exploration programme and to provide adequate working capital.

STAND-BY COMMITMENT BY CAMFLO MINES LIMITED

Camflo Mines Limited is one of Canada's leading gold producers. Camflo also has substantial oil and gas interests in Canada and the United

States, and carries out an active exploration programme in both countries.

For the past 4 years the Company and Camflo have been under common management, and during this time Camflo has provided administrative services to the Company. It is through this association with Camflo that the Company has had the opportunity to participate in its present oil and gas projects.

The Company realizes that, because of its limited financial resources, it would be beneficial for it to be associated with a larger company, and for this reason, it was decided to enter into an agreement with Camflo, pursuant to which, Camflo would guarantee the rights offering and acquire a significant equity interest in the Company.

Your Directors have set $525,000 as the minimum amount which must be realized from the sale of shares pursuant to the rights offering.

To ensure that the Company receives this sum the agreement with Camflo provides that, immediately following expiry of the rights offering, Camflo will purchase at $1.10 per share such number of shares as will ensure that the Company will receive not less than $525,000 from the proceeds of the rights offering and the sale of shares to Camflo. In consideration for Camflo's agreement to act as back-up underwriter for the rights offering, the Company has granted Camflo the right to purchase at $1.15 per share such additional shares as will enable Camflo to hold up to 25% of the issued shares of the Company.

OUTLOOK

Income from the Company's natural gas interests should continue to increase as additional wells are brought into production and prices continue to rise.

Wilmar Mines Limited, in which your Company has a 35% interest, is maintaining its mining claims on its gold property in the Red Lake area of Ontario. The recent rise in the price of gold bullion is an encouraging development for the Wilmar property. Your Directors will continue to assess the economic possibility of this potential asset.

Your Directors recommend that shareholders approve the proposed consolidation of shares at the forthcoming Annual and General Meeting in order that the rights offering may be proceeded with. The funds received from the issue of additional treasury shares, and the association with Camflo, will place your Company in a position to maintain present oil and gas undertakings and take advantage of new opportunities as they arise.

On behalf of the Board of Directors,

"G. T. SMITH",
President.

March 10, 1978.

MARTIN-McNEEL

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Balance Sheet as a

ASSETS

Current Assets	1977	1976
Cash	$ —	$ 273
Accounts receivable	1,385	2,643
Marketable securities, at cost (quoted market value $408,575; $493,000 in 1976)	234,275	284,674
	235,660	287,590
Investment in other companies	5	5
Other Assets and Deferred Expenditures		
Interest in petroleum and natural gas properties (at cost, less amortization) (note 2)	402,518	248,660
Deferred exploration and administrative expenditures	156,210	156,089
Patented mining claims situated in the Township of Dome in the District of Patricia, Ontario, at cost	99,470	99,470
	658,198	504,219
	$ 893,863	$ 791,814

AUDITO

To the Shareholders of
Martin-McNeely Mines, Limited

We have examined the balance sheet of Martin-McNeely Mines, Limited as at Dec
expenditures and changes in financial position for the year then ended. Our examination v
tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of th
financial position for the year then ended in accordance with generally accepted accounti

Toronto, Canada
February 19, 1978

MINES, LIMITED

laws of Ontario)

December 31, 1977

LIABILITIES	1977	1976
Current Liabilities		
Bank indebtedness (note 3)	$ 49,189	$ 25,000
Accounts payable and accrued liabilities	11,247	3,505
Current portion of long-term debt (note 4)	39,600	39,600
	100,036	68,105
Long-Term Debt (note 4)	96,000	153,800
	196,036	221,905
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized		
10,000,000 shares of no par value		
Issued		
7,189,003 shares	2,044,520	2,044,520
Deficit	1,346,693	1,474,611
	697,827	569,909
	$ 893,863	$ 791,814

Approved on behalf of the Board:

"G. T. SMITH", Director.

"R. M. SMITH", Director.

REPORT

31, 1977 and the statements of income and deficit, deferred exploration and administrative ade in accordance with generally accepted auditing standards and accordingly included such

npany as at December 31, 1977 and the results of its operations and the changes in its inciples applied on a basis consistent with that of the preceding year.

ALLEN, MILES, FOX & JOHNSTON
Chartered Accountants

MARTIN-McNEELY MINES, LIMITED

STATEMENT OF INCOME AND DEFICIT
For the Year Ended December 31, 1977

	1977	1976
Share of revenue from gas operations	$ 106,755	$ 53,169
Less: Operating expenses	15,571	7,044
Amortization of interests in petroleum and natural gas properties	27,523	11,445
	43,094	18,489
Income from gas operation	63,661	34,680
Administrative expenses		
Directors' fees and expenses	1,850	250
General expenses	3,821	1,721
Interest on bank loan	18,764	22,009
Office expense	1,827	103
Office rent	2,100	1,850
Legal, audit and consultants' fees	4,642	2,712
Shareholders' information	3,185	3,070
Transfer agent's fees and expenses	2,799	3,392
	38,988	35,107
Other income		
Dividends	—	5,640
Gain on sale of shares	103,245	—
	103,245	5,640
Income before extraordinary item	127,918	5,213
Extraordinary item	—	534,616
Net income (loss) for the year (note 5)	127,918	(529,403)
Deficit, beginning of year	1,474,611	945,208
Deficit, end of year	$1,346,693	$1,474,611
Earnings per share:		
Income before extraordinary item	$ 0.02	$ —
Net income (loss) for the year	$ 0.02	($ 0.07)

MARTIN-McNEELY MINES, LIMITED

STATEMENT OF DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

For the Year Ended December 31, 1977

	1977	1976
Balance deferred, beginning of year	$ 156,089	$ 155,969
Exploration		
Acreage and municipal taxes	121	120
Balance deferred, end of year	$ 156,210	$ 156,089

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1977

	1977	1976
Working Capital Derived From		
Income before extraordinary item	$ 127,918	$ 5,213
Charges not requiring an outlay of funds		
Amortization of interests in petroleum and natural gas properties	27,523	11,445
	155,441	16,658
Long-term debt	—	153,800
	155,441	170,458
Working Capital Applied To		
Other assets and deferred expenditures	181,502	47,918
Participation in other mining companies	—	2,672
Decrease in long-term debt	57,800	—
	239,302	50,590
Increase (decrease) in working capital	(83,861)	119,868
Working capital, beginning of year	219,485	99,617
Working capital, end of year	$ 135,624	$ 219,485

MARTIN-McNEELY MINES, LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1977

1. **Summary of Significant Accounting Policies**

A. Interest in Petroleum and Natural Gas Properties

The company has adopted the full cost method of accounting for costs applicable to natural gas leases. Under this method, the costs of acquiring interests in proven and unproven petroleum and natural gas properties and the costs of wells developed have been capitalized as incurred. Depreciation and amortization of oil and gas property costs have been calculated on the basis of total production during the year as a percentage of total proven reserves.

B. Deferred Exploration and Administrative Expenditures

The costs of non-producing mineral interests are capitalized by area of interest when acquired. When all claims in an area of interest are surrendered, the cost of the properties and the related deferred exploration, development and other expenditures are written off to deficit. The recovery of deferred expenditures and the cost of non-producing property interests is dependent upon developing economic operations.

2. **Interest in Petroleum and Natural Gas Properties**

The company has interests ranging from 8.44% to 16.88% in a farmout agreement on certain lands in the Viking area of Alberta subject to overriding royalties and an option to convert an overriding royalty to a 50% working interest which would result in the company's interests being reduced to 4.22% to 8.44%.

3. **Bank Indebtedness**

Bank indebtedness includes a loan of \$46,000 (1976 — \$25,000) which is fully secured by marketable securities.

4. **Long-Term Debt**

Long-term debt is fully secured by marketable securities and comprises the following:

	1977	1976
Bank loan at 9¾% interest per annum, payable in equal monthly instalments of \$3,300 principal plus interest, due November 30, 1981	\$ 135,600	\$ 193,400
Less principal portion due within one year included in current liabilities	39,600	39,600
	\$ 96,000	\$ 153,800

As at December 31, 1977, the company had given the bank an undertaking to pledge reserves of petroleum and natural gas as security for this debt under Section 82 of the Bank Act.

5. **Income Taxes**

Exploration and development costs deferred in the accounts have been partially written off for tax purposes. Such amounts are available for application against future taxable income and approximate \$219,000 (1976 — \$204,000).

6. **Statutory Information**

The aggregate direct remuneration paid or payable by the company to its directors and senior officers, as defined by The Business Corporations Act (including the five highest paid employees), amounts to \$1,850 (\$250 in 1976).

7. **Anti-Inflation Program**

The company is subject to controls on dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. Management has used its best efforts to comply with the guidelines since their announcement.

8. **Comparative Figures**

Certain figures for 1976 have been reclassified for comparative purposes to correspond with the classification adopted in 1977.

9. **Subsequent Events**

Subsequent to December 31, 1977:

(a) The company intends to seek shareholder approval of an amendment to its articles changing its name and consolidating its shares on a one for seven basis. If shareholders approve this consolidation they will be offered rights to purchase one additional share for every two shares held at \$1.10 per share. A standby commitment has been given by Camflo Mines Limited under which it will purchase shares of the company not taken up by other shareholders in order that the reorganized company will not receive less than \$525,000 under the rights offering. Camflo Mines Limited also has the right to purchase, immediately after the rights offering, an additional number of shares at \$1.15 per share of the reorganized company as will enable it to hold up to 25% of the issued shares of the reorganized company.

(b) The company acquired a 7.3% interest in an oil and gas exploration programme in Alberta and British Columbia operated by Renaissance Resources Limited. The company's share of expenses will be \$200,000 over a period of approximately one year.

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